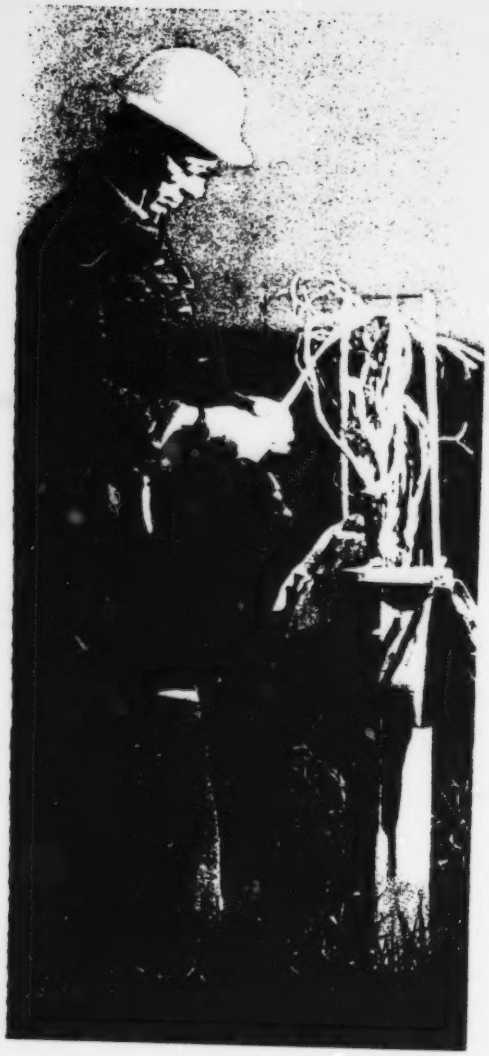
MANITOBA
TELEPHONE
SYSTEM

A member of Telecom Canada

REPORT

For the nine months ended
December 31 1987



As dusk approaches southeastern Manitoba, MTS Installer/Repairman Claude Skubovius, Steinbach, maintains the complex network of telecommunications links that provide over 523,000 telephone subscribers with access to the world at rates that are among the lowest of any Canadian telephone company.

TABLE OF CONTENTS

Board and Executive 2

Highlights of the Report 3

Chairperson's Report 4

Report from the President 5

Financial Summary 6

Operational Reviews 7

Financial Statements 14

Five Years in Review 24

REPORT

For the nine-month period ended December 31, 1987

MANITOBA TELEPHONE SYSTEM

A member of Telecom Canada

THE MANITOBA TELEPHONE SYSTEM

(As at December 31, 1987)

The Honourable Gary A. Doer
Minister responsible for
The Manitoba Telephone Act

Board of Commissioners

From left to right:

Robert Mayer, Q.C.

Valerie Matthews Lemieux

Joanne Swayze

Paul Thomas
Chairperson

Roy McMillan

Don Scott
Vice-Chairperson

Mariann Burka

Absent:

Ashley Blackman

Audrey Flood

Executive Officers

Reg Bird
President & Chief
Executive Officer

Brian McCallum
Vice-President
Business Communications

Bill Fraser
Vice-President
Finance

* Acting

Barry Gordon
Vice-President
Network Development
& Operations

Heather Nault
Vice-President
Marketing & Strategic
Planning*

Dennis Wardrop
Executive Vice-
President*

Bob Vannevel
Vice-President
Corporate Services

Ken Beatty
Vice-President
General Counsel

Barry Deakin
Vice-President
Customer Services

General Regional Managers

Doug Delgatty
Western Region

Ted Scoles
Northern Region

Ed Tinkler
Eastern Region

HIGHLIGHTS OF 1987

Business Growth

* Long distance calls increased by 15,000 to reach 266,000 daily, or 5.9% on average.
* 16,424 main stations were added bringing the total to 523,857, a 2.1% increase in nine months.
* Extended Area Service (EAS) is now available to 134,000 subscribers.
* Local calls reached a daily average of 5,482,000.
* Direct Distance Overseas Dialing was extended to 37 more countries.

Construction

* Serviced 5,602 residential lots, including over 3,000 in the Winnipeg area alone.
* Digital switching was extended to 23 more rural communities.
* 65 rural communities now have access to coaxial cable television service.

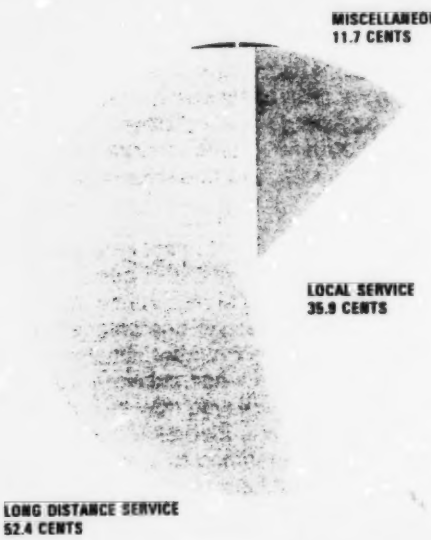
Financial

Value of telephone plant ...	$1,468,737,000
Operating Revenues	310,328,000
Operating Expenses	257,699,000
Net Revenue on Operations	1,947,000

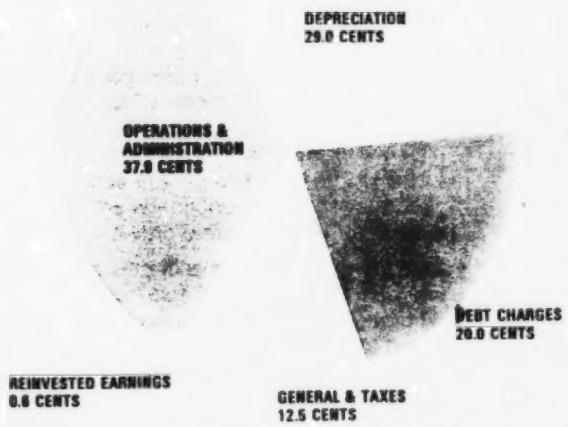
THE MTS DOLLAR

(Nine months ended December 31, 1987)

Where Each Dollar Came From:



Where Each Dollar Went:



CHAIRPERSON'S REPORT

Change is a constant feature of the modern telecommunications world. Innovative technology has produced new products and services. At the same time, customers have become more insistent that these improvements be made available to them. There has also been the need to respond to the usual growing demand for residential, business and long distance service.

Technological change in telecommunications also has contributed to an ongoing debate about the wisdom of making changes in the policy and regulatory frameworks within which the telephone industry has operated for several decades. The outcome of those debates will shape, in part, the future of telecommunications in Manitoba. Whatever the outcome, the company is confident of its ability to meet any challenges that arise.

Fundamental changes require that The Manitoba Telephone System not only have a clear vision of the future, but also demonstrate leadership, flexibility and openness in meeting the challenges ahead.

Our commitment is to provide outstanding telecommunications services and products to all Manitobans. Quality and reliable products and services must be both affordable and widely available.

Two of our top goals are to provide customer satisfaction and to keep the public well informed. Changing technology and regulatory arrangements will provide customers with more choices. MTS must ensure that it is close to its customers and responsive to their changing needs. We are also committed to ensuring that Manitobans and their elected representatives are kept fully informed about MTS activities.

The company returned to a position of profitability during 1987, but there is more to be done to prepare us for greater competition. MTS is dedicated to developing and supporting well-trained employees. Longer term human resource development plans are being prepared.

Since my appointment on August 18, 1987, I have been impressed by the complicated and dynamic nature of the telecommunications industry. Changes have been made to the organization and procedures of the Board of Commissioners to ensure that it is capable of dealing effectively with the complex issues it faces.

On behalf of the Board, I would like to thank President Reg Bird, his executive team, and numerous employees throughout the organization for their support. Our thanks are also directed to the 5,046 employees throughout the System for their continued dedicated efforts. The Board of Commissioners is confident that in the year ahead, The Manitoba Telephone System will achieve its objectives to the mutual benefit of the community, its customers and its employees.

Paul G. Thomas
Chairperson

PRESIDENT'S REPORT

The nine months ended December 31, 1987, were a period of transition for The Manitoba Telephone System as the company restructured to meet the challenges of a more competitive telecommunications environment.

At the same time, it was a period of steady growth during which MTS people again demonstrated their commitment to providing Manitobans with high quality telecommunications service at rates which are the lowest of any Canadian telephone company.

I am pleased that this report, my first since becoming President and Chief Executive Officer on August 18, 1987, is a positive one, reflecting a return to profitability and reinforcing the System's commitment to providing all Manitobans with quality communications products and outstanding service.

Because of changes to have the System's fiscal year and calendar year coincide, this Report covers the nine-month period from the close of the 1986/87 fiscal year on March 31, 1987, to December 31, 1987, and therefore, comparisons with previous-year performance would not be meaningful in this particular Annual Report.

During this nine-month reporting period, MTS generated net incomes of $1,947,000. This represents a strong recovery from the $19,991,000 loss incurred during the 12-month period ending March 31, 1987, largely attributed to retiring long-term foreign debts.

With increases in the number of installed main stations and stronger demand for long distance services, MTS faces a very challenging and exciting future as it responds to demands for service improvements in rural areas, provides service improvements for customers with physical disabilities, restructures its debt and pension liabilities and prepares to compete aggressively for a profitable share of the Manitoba telecommunications market.

In 1987, MTS earned its revenues from three sources: regulated services such as basic telephone rates and intra-provincial long distance; the System's share of inter-provincial long distance revenues under the sharing agreement established by Telecom Canada; and from unregulated services such as optional calling features, directory advertising and specialized equipment sales and leases.

The number of long distance calls handled grew from an average of 251,000 per day during the 1986/87 fiscal reporting period to a daily average of 266,000 in the nine months to December 31, 1987. Rate reductions on inter-provincial long distance calling implemented by the member companies of Telecom Canada in September, 1987, were a major influencing factor. These reductions have reinforced the cost-effectiveness of long distance calling and improved the telephone industry's competitive position as a long distance network provider.

The increase in long distance usage is a particularly positive development since long distance revenues contribute more than 50% of the company's total revenues and have enabled us to offer subscribers low basic telephone rates.

(continued overleaf)

PRESIDENT'S REPORT (Continued)

The Manitoba Telephone System is committed to improving telephone service to our rural customers. In June, 1987, MTS launched an extensive survey on public attitudes concerning telephone service and participated with the Manitoba Government in public meetings in 17 rural communities during November and December. Information collected during these public consultations has been analyzed and will form the basis of a far-reaching service improvement program.

On October 2, 1987, the company filed with the Public Utilities Board for approval of rates to connect cellular mobile radio systems to MTS's telephone network. This was the first step in introducing cellular telephone service to Manitoba. MTS Cellular, scheduled to debut in Winnipeg in May, 1988, is our first full-scale entry into the newly-emerging competitive telecommunications market. We see it as an opportunity to demonstrate we can maintain our tradition of quality and service and still compete successfully with a wide range of specialized communications products and services.

The achievements described in this Report are both a credit to our more than 5,000 employees for their past efforts and a challenge to maintain MTS's tradition for service while adapting to the realities of an ever-changing telecommunications industry.

On behalf of the MTS Executive, I want to thank the Honourable Gary Doer, Minister responsible for The Manitoba Telephone Act, Mr. Paul Thomas, Chairperson, members of the Board of Commissioners, Mr. Edward J. Robertson, who served so ably as Acting President and Chief Executive Officer prior to my appointment, and our employees throughout the province for their guidance, cooperation and support during this period of transition.

Reg Bird
President and Chief Executive Officer

FINANCIAL SUMMARY

In accordance with Order-in-Council 1197/87, dated October 14, 1987, the fiscal year-end of The Manitoba Telephone System was fixed at December 31 in each year. Because of this change, a summary of changes in operating results between March 31, 1987 and December 31, 1987 would not be meaningful.

Net income for the nine-month period was $1,947,000 compared with a net loss of $19,991,000 for the twelve months ending March 31, 1987.

New telecommunications property added during the period amounted to $132,776,000. Total property values as at December 31, 1987, were $1,468,737,000 and represents an average investment in plant per main telephone of $2,804, an increase of $114 during the period.

The Board approved an increase in investments held for pension obligations of $13,098,000 to offset the increase in the pension component of deferred employee benefits.

Deferred charges of $39,499,000 increased $8,925,000 over the previous year. The increase was mainly attributable to unrealized foreign currency losses, net of amortization of $10,116,000 and reflects a 17.9% deterioration of the Canadian dollar relative to the Swiss franc over the nine-month period.

Net borrowings during the year consisted of additional long-term debt of $100,000,000. Long-term debt of $65,000,000 was retired during the year, with $3,600,000 of this repayment being provided by the Sinking Fund. Contributions to the Sinking Fund of $7,037,000 were made as required under The Manitoba Telephone Act.

Reinvested earnings increased $4,347,000 during the period, $1,947,000 as a result of net revenues for the period and $2,400,000 as a result of an adjustment of prior years' Sinking Fund earnings.

OPERATIONAL REVIEW

Strong Subscriber Demand Contributes to Steady System Growth

During the nine months ended December 31, 1987, MTS activities throughout the province reflected the buoyant state of the Manitoba economy. The company experienced a strong demand for telephone services from both residential and commercial sectors.

A total of 16,424 new main stations were installed during the nine-month period, a 2.1% increase since March 31, 1987. At year's end, Manitoba's total telephone population was 523,857 main stations including 108,351 commercial and 415,506 residential stations.

Demand for residential services continued at a brisk pace. During the nine-month period covered by this Report, 5,602 new residential main stations were installed including service to more than 3,000 new building lots in the Winnipeg area alone.

Construction activity kept pace with increases in service demand. Construction expenditures totalled $132,776,000 and total value of MTS property rose to $1,468,737,000.

This healthy customer demand was a major factor in generating total revenues of $324,461,000. These revenues included $310,328,000 from operations including local and long distance services and $14,133,000 from miscellaneous sources such as directory advertising, rentals and attachments.

Total operating expenses during the same period were $257,699,000.

Long distance calling volumes continued to rise, spurred by inter-provincial rate reductions introduced by the member companies of Telecom Canada. Central-officeman Brian Burton inspects a circuit-board at the Overseas Calling Centre at CFB Shilo, near Brandon.

Nearly 15,000 subscribers in 23 smaller communities across the province and 17,400 in Winnipeg were introduced to the benefits of digital switching during the reporting period, part of an ongoing program to provide Manitobans with the highest possible quality of telephone service. This manual board, used by mobile switchboard operators in Brandon, is one of the last non-digital switchboards still in service.

A Continuing Commitment to Service Improvements

During the reporting period, MTS engineers, technicians, construction crews and administrative staff continued a number of major on-going programs to improve and expand services to communities throughout the province.

Work continued on the province-wide program to upgrade the network to digital switching. This program is the key to providing subscribers throughout the province with the full range of features such as direct overseas calling, operator-plus dialing, access to international data transmission networks and Custom Calling features such as call forwarding, speed calling, call waiting and three-way calling. Nearly 15,000 subscribers in 23 communities and 17,400 in Winnipeg were transferred to digital switching equipment. These subscribers now enjoy the greater speed, convenience and flexibility offered by this state-of-the-art technology.

During 1987, $100,000 was invested to bring Automatic Number Identification (ANI) to four more exchanges. ANI eliminates the need to give one's telephone number to an operator when placing a long distance call, speeding the calls and greatly reducing billing errors.

At the same time, telephone service was established at three remote locations — Herb Lake Landing, Tartan Lake Mine and Puffy Lake Mine — and major improvements were made to systems serving Grass River Lodge, Spruce Point Mine and Poplar River.

Groundwork Completed for Rural Service Improvement

The company's continuing efforts to improve rural telephone service included expansion of Extended Area Service (EAS) to two more communities. This brings the total number of areas served by this program to 132. In total, more than 134,000 customers are now in areas enjoying toll-free calling to nearby communities sharing common interests. At the same time, improvements were made to EAS facilities in nine existing Extended Areas to provide subscribers with improved service.

The corporation's efforts to improve telephone service to rural communities received added impetus in February, 1987, when Gary Doer, Minister responsible for The Manitoba Telephone Act, announced the Manitoba Government's intention to initiate a comprehensive public consultative process to review rural telephone policies.

This announcement was a response to persistent demands from rural subscribers for a broad range of service improvements including elimination of multi-party lines, expanded toll-free calling and reduced long distance rates between commuter communities and Winnipeg and Brandon.

During June and July, 5,500 MTS customers (500 from Winnipeg and 5,000 from rural Manitoba) were interviewed. In November and December, the Minister and The Honourable Bill Uruski, Minister of Municipal Affairs, held a series of 17 public meetings in rural Manitoba to discuss telephone policies and services.

Concerns raised at these meetings along with data collected during the earlier survey will form the basis of a far-reaching rural service improvement program.

Calling Volumes Reach Record Levels

Manitobans overcame the barriers of time, distance and climate through record local and long distance telephone usage during the nine-month period described in this Report.

Volumes of daily local and long distance calls exceeded those experienced during the 12 months of the previous fiscal year. On an average day, Manitobans placed 5,482,000 local calls and 266,000 long distance calls, increases of 2.6% and 5.9% respectively over 1986/87 daily averages.

This healthy customer demand, a general rate increase on intra-provincial regulated services plus greater volumes of long distance calls generated total revenues of $324,461,000. Of this total, $310,328,000 was derived from operations, including local and long distance services and $23,929,000 from miscellaneous services such as directory advertising, rentals and attachments.

As in past years, long distance revenues were major income earners providing 52.4% of the System's total revenues, or $169,867,000. Revenues from local telephone services represented $116,532,000, or 35.9% of total operating revenues.

MTS implemented a number of programs to encourage long distance usage including Manitoba-only and North America-wide "Between Friends" programs which allows customers to pre-pay for 30 minutes of calling time during off-peak hours. The company also introduced Calling Card-operated pay telephones at Winnipeg International Airport and 10 locations throughout the city as a convenience to the travelling public.

During the period under review, the members of Telecom Canada reduced national long distance rates to better position the companies for competition for these services and to pass along savings achieved through technical innovations within the telecommunications industry. Depending on the distances called, reductions of between 3% and 14% on inter-provincial long distance calls were implemented by member companies of Telecom Canada. Our subscribers realized significant savings and, as a result, calling volumes increased.

On the international front, toll-free 800 service was extended to include the United Kingdom in November, 1987, and 37 more countries became accessible by Direct Distance Overseas Dialing.

New Services Offer Greater Savings and Convenience

Other new products and services introduced included Traderoute™, which allows organizations using different computer systems to exchange documents electronically through "message boxes." Telecom Canada also launched Exten™, a versatile voice messaging service that allows callers to record and relay messages through a central computer. This new service was initially trial marketed by MTS as "Hello Central" and is now available across Canada.

DataPac, the service that allows customers to transmit small volumes of data economically through a shared network, was also expanded and improved. A new service, Datapac 3000 Dial, was introduced and offers customers, especially those using personal computers, additional cost savings and access flexibility. At the same time, the data-carrying capacity of the existing Datapac 3000 Dedicated service was doubled to 19.2 kilobits/second.

Also, improvements to Datapac 3201 added a dedicated service to overcome limitations in the number of terminals subscribers could connect to the network.

Business and Broadcast Services Maintain Sales Momentum

A surge in Winnipeg downtown construction with major projects like the Portage Place Development and Number One Canada Place (Investors Syndicate's new corporate headquarters), resulted in sales of 125 major new Business Communications Systems contracts. Additional sales of smaller systems reflected the steady growth that characterized much of Manitoba's small business sector during the latter half of 1987.

On the North Portage Development alone, MTS construction crews spent 1,500 hours placing and splicing new cables to provide service to this massive retail and commercial complex, which is the cornerstone of a comprehensive program to revitalize Winnipeg's downtown core.

Three installers were assigned to the North Portage project full-time from mid-July to the end of September to complete more than 225 work orders to fill tenants' demands for telephone services. In addition, 30 pay telephones were installed to serve the thousands of people who visit the complex on an average day.

In addition to strong demand for new business installations, a number of major companies, including Great West Life and the Manitoba Health Services Commission in Winnipeg and the Flin Flon-based Hudson Bay Mining and Smelting Company, upgraded their telecommunications systems to achieve greater efficiency, convenience and cost-effectiveness.

Introduction of Integrated Building Distribution Network (IBDN) technology in Winnipeg's

One Canada Place represented a major breakthrough in internal computer systems communications. This concept, which uses standard telephone wires rather than expensive coaxial cables to inter-connect computer systems, offers significant installation and maintenance cost-savings.

During 1987, Centrex, a service previously targeted primarily towards federal, provincial and municipal governments, made inroads into new market areas including financial institutions like the Toronto Dominion Bank. Centrex is also attracting attention from smaller organizations seeking more streamlined communication services. Frontier Toyota, for example, installed a system to link its six Winnipeg sales locations to improve communication between various branches. The system, company officials say, offers convenience, ease of operation and greater control over long distance costs.

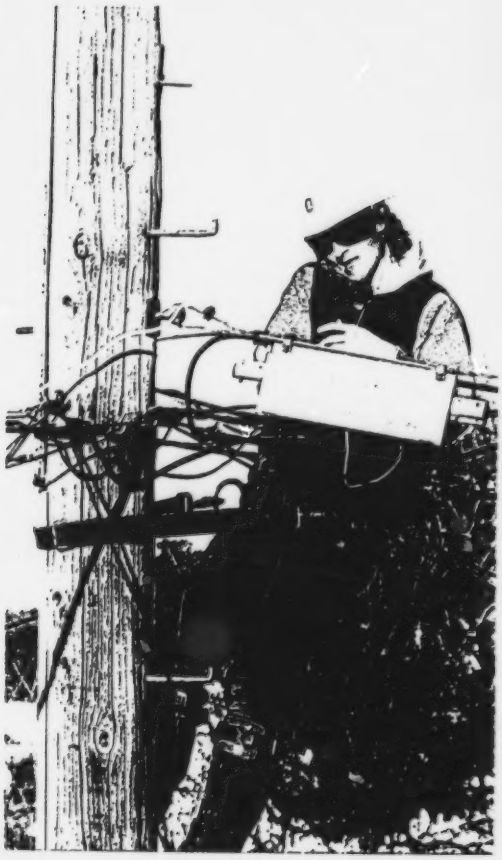
The introduction of Megastream™, a new Telecom Canada service offering digital private line network services with customer network management capabilities, provides business customers with an additional telecommunications option. The Hudson's Bay Company, Richardson-Greenshields, the Royal Bank and The Bank of Montreal were early adopters of this service.

Cable TV Network Now Serves 65 Communities

On December 31, 1987, a total of 65 Manitoba communities, an increase of 10 since the end of the previous fiscal year, were receiving cable television service over networks installed and maintained by MTS.

Communities added to the network during 1987 included Cranberry Portage, Holland, Notre Dame, Pine Falls, Plum Coulee, St. Adolphe, Ste. Anne, St. Claude, St. Jean and Teulon.

New cable TV agreements were also concluded with Winnipeg Videon Inc. and the Canadian Broadcasting Corporation for expanded broadcast services to be introduced during 1988.



The Equal Employment Opportunity Program ensures all employees receive equal employment opportunities and benefits regardless of gender, race or disabilities. One major effect has been an increase in the number of people in non-traditional job roles. General Apprentice Tracey Borotsik of Brandon is training with the Western Region Construction Group in Brandon to learn a variety of outside plant construction skills.

ADMINISTRATION

SpaceTel satellite service provides a telecommunicc-tions lifeline to isolated communities in Manitoba's north. The dishes beam signals from isolated communities to orbiting satellites then back to MTS's main station in Winnipeg and the MTS telecommunications net-work. MTS technician Cam White takes the one-hour flight from Flin Flon at least once a month to maintain this dish, one of five in the Northern Region, which serves 75 subscribers in Pukatawagan.

On August 18, 1987, The Honourable Gary Doer, Minister responsible for The Manitoba Telephone Act, announced the appointment of Professor Paul Thomas as MTS Chairperson and Mr. Reg Bird as President and Chief Executive Officer. In announcing Mr. Bird's appointment, the Minister extended his appreciation to Mr. Ed Robertson, who had served as Acting President since November, 1986. "Mr. Robertson was given a challenging task," the Minister said, "and has performed in an exemplary fashion."

Other senior staff appointments during the reporting period included confirmation of Mr. W.C. Fraser as Vice-President - Finance on April 1, 1987, the position he had previously held on an Acting basis.

On April 13, 1987, Ms. Laura Talbot-Allan was appointed Comptroller; on April 21, 1987, Mr. Roy Sherbo was appointed to the staff of the President's Office; and on August 24, 1987, Ms. Cheryl Barker was appointed Treasurer.

On December 17, 1987, a report regarding MTS and its subsidiary, MTX Telecom Services Inc. was made public by Mr. Doer. The Minister announced plans for the winding down of MTX over a six-month period. In addition, he reported that an independent review of eleven MTS projects and services had been completed. As a result of this review, projects with strong profit potential were restructured and continued. Those requiring significant additional development investment were either sold or wound down.

Labor Relations

The signing of a Collective Agreement covering about 1,190 management employees, the first in MTS's history, with the Telecommunications Employees Association of Manitoba (TEAM) took place on September 18, 1987, and marked a major milestone in employee relations. The majority of the MTS workforce is now covered by collective agreements.

Pay Equity

During the nine-month period, work continued on the first phase of a pay equity program to

eliminate differences in wages paid to male and female employees performing work of equal or comparable value. Job evaluation criteria were negotiated within a joint management/union committee and MTS's male- and female-dominated job classifications were identified.

Equal Employment Opportunity

On January 26, 1987, Mona Katawne was appointed Equal Employment Opportunity (EEO) Coordinator. The EEO program will ensure all employees and prospective employees receive equal employment opportunities and benefits regardless of gender, race or disabilities. An EEO advisory committee comprised of representatives from senior management from each region, the two operational units, the Board of Commissioners, the MTS Personnel Department and the three unions representing the MTS workforce, was established to assist in designing and implementing the various phases of the program.

On December 31, 1987, a total of 5,064 full and part-time employees were employed by the System in 80 communities throughout the province.

ACKNOWLEDGEMENTS

The Board of Commissioners recognizes with thanks the contributions of Edward J. Robertson, who served as interim President and Chief Executive Officer during part of the nine-month period addressed in this report.

The Board also expresses its appreciation to all members of the Executive who contributed to redirecting the corporation to meet the new technological and marketing challenges facing it in the future.

The Commissioners and Officers also take this opportunity to recognize the contributions of employees at all levels within the System whose dedication and skills served Manitobans so well in the past and who continue to bring credit to the organization as it enters its 80th year of service in 1988.

Northern Region, encompassing over 500,000 square kilometers north of the 53rd Parallel, serves 22,000 customers, all of whom have the benefits of Automatic Number Identification (ANI) and the highest proportion of Touch-Tone telephones (69%) in the province. MTS Island Lake Installer Jack Harper demonstrates the Garden Hill Indian Band office's new multi-line service to Band secretary/receptionist Rhoda Wood.

FINANCIAL STATEMENTS

Management's Report

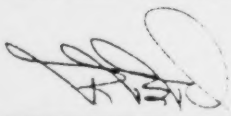
The integrity and objectivity of the financial statements and accompanying notes in the annual report are the responsibility of management.

To fulfill this responsibility, The Manitoba Telephone System maintains internal control systems to provide reasonable assurance that the books and records, from which the financial statements are derived, accurately reflect all transactions and that established policies and procedures are followed. The internal control systems are supported by regular reviews by internal auditors and by examination of the financial statements by Arthur Anderson & Co., independent chartered accountants.

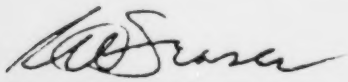
The responsibility of the Board of Commissioners for the statements is pursued principally through its Audit Committee, which meets periodically with management and the internal and external auditors, to review accounting controls, results of audits and accounting principles and practices.

The external auditors have full access to the Audit Committee both with and without mangement present. Their report, which provides an independent review of the system of internal controls and the compliance of the statements to generally accepted accounting principles, follows.

On behalf of the management:



President and Chief Executive Officer



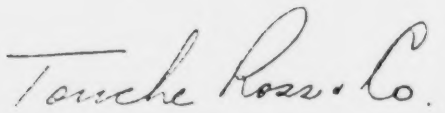
Vice President — Finance

Auditor's Report

To the Board of Commissioners,
The Manitoba Telephone System

We have examined the balance sheet of The Manitoba Telephone System (a Manitoba corporation) as at December 31, 1987 and the statements of operations and reinvested earnings and changes in financial position for the nine month period then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1987 and the results of its operations and the changes in its financial position for the nine month period then ended in accordance with accounting principles described in Note 1 to the financial statements applied on a basis consistent with that of the preceding year.



Chartered Accountants

Winnipeg Manitoba
February 26, 1988

THE MANITOBA TELEPHONE SYSTEM

STATEMENT I

BALANCE SHEET AS AT DECEMBER 31, 1987

ASSETS

	December 31, 1987	March 31, 1987
	(in Thousands of Dollars)	
TELECOMMUNICATIONS PROPERTY		
Buildings, plant and equipment	**$1,393,257**	$1,319,590
Less accumulated depreciation	**692,406**	642,123
	700,851	677,467
Land	**5,952**	6,018
Plant under construction	**49,032**	36,756
Materials and supplies, at cost	**20,496**	17,462
	776,331	737,703
INVESTMENTS (Note 3)	**999**	999
INVESTMENTS HELD FOR PENSION OBLIGATIONS (Note 10)	**65,349**	52,251
CURRENT ASSETS		
Short term investments	**41,612**	48,172
Accounts receivable (Note 4)	**53,124**	44,110
Prepayments	**7,597**	5,035
	102,333	97,317
DEFERRED CHARGES		
Unrealized foreign currency losses, net of amortization	**30,582**	20,466
Unamortized long-term debt costs	**4,513**	4,789
Preliminary engineering and miscellaneous	**2,638**	3,241
Deferred employee benefit costs, net of amortization	**1,766**	2,078
	39,499	30,574
	$ 984,511	$ 918,844

Approved on behalf of the Board

Paul Thomas
Chairperson

Jeanne Swayze
Commissioner

See accompanying notes to financial statements.

THE MANITOBA TELEPHONE SYSTEM

BALANCE SHEET AS AT DECEMBER 31, 1987

LIABILITIES AND REINVESTED EARNINGS

	December 31, 1987	March 31, 1987
	(in Thousands of Dollars)	
DEBT		
Long-term debt (Note 11)	**$ 804,055**	$ 753,325
Less sinking fund investments (Notes 5 and 11)	**57,144**	51,013
	746,911	702,312
DEFERRED EMPLOYEE BENEFITS (Note 10)	**80,691**	66,967
NOTES PAYABLE	**5,000**	5,000
CURRENT LIABILITIES		
Outstanding cheques less cash in bank	**2,783**	817
Accounts payable and accrued liabilities	**49,525**	51,068
Advance billings and payments	**5,002**	4,137
Accrued interest	**22,689**	20,980
	79,999	77,002
	912,601	851,281
REINVESTED EARNINGS	**71,910**	67,563
	$ 984,511	$ 918,844

THE MANITOBA TELEPHONE SYSTEM

STATEMENT II

STATEMENT OF OPERATIONS AND REINVESTED EARNINGS FOR THE NINE-MONTH PERIOD ENDED DECEMBER 31, 1987

	9 Months Ended December 31, 1987	12 Months Ended March 31, 1987
	(Note 2)	
	(in Thousands of Dollars)	
OPERATING REVENUES		
Long distance service	**$169,867**	$211,717
Local service	**116,532**	138,508
Miscellaneous (Note 6)	**23,929**	29,094
	310,328	379,319
OPERATING EXPENSES		
Operations and administration	**123,120**	160,789
General	**33,814**	41,935
Depreciation	**93,994**	113,574
Operating taxes (Note 7)	**6,771**	8,636
	257,699	324,934
NET OPERATING REVENUES	**52,629**	54,385
OTHER REVENUES (Note 8)	**14,133**	16,751
NET REVENUES BEFORE DEBT CHARGES	**66,762**	71,136
DEBT CHARGES (Note 9)	**64,815**	91,127
NET REVENUES (LOSS) FOR THE PERIOD	**1,947**	(19,991)
REINVESTMENT EARNINGS, AT BEGINNING OF PERIOD AS PREVIOUSLY REPORTED	**67,563**	87,554
Adjustment of prior years sinking fund earnings (Note 5)	**2,400**	—
As restated	**69,963**	87,554
REINVESTED EARNINGS, AT END OF PERIOD	**$ 71,910**	$ 67,563

See accompanying notes to financial statements.

THE MANITOBA TELEPHONE SYSTEM

STATEMENT III

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE NINE-MONTH PERIOD ENDED DECEMBER 31, 1987

	9 Months Ended December 31, 1987 (Note 2)	12 Months Ended March 31, 1987
	(in Thousands of Dollars)	
CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
From operations		
Net revenues (loss) for the period	**$ 1,947**	$(19,991)
Cash used by changes in working capital	**(10,545)**	(306)
Add: Depreciation and other items not requiring cash (net)	**112,208**	118,098
Payments toward deferred employee benefits	**(1,068)**	(1,019)
Total cash provided by operating activities	**102,542**	96,782
CASH PROVIDED BY (USED FOR) FINANCIAL ACTIVITIES		
Issuance of long-term debt	**100,000**	217,192
Repayment of bonds and advances	**(65,000)**	(131,329)
Total cash provided by financial activities	**35,000**	85,863
CASH PROVIDED BY (USED FOR) INVESTMENT ACTIVITIES		
Construction program expenditures (net)	**(129,533)**	(160,740)
Decrease in investments held for foreign exchange obligations	**—**	38,235
Sinking fund withdrawals	**3,600**	10,058
Increase in investments held for pension obligations	**(13,098)**	(20,236)
Contribution to sinking fund	**(7,037)**	(8,584)
Total cash (used by) investment activities	**(146,068)**	(141,267)
(DECREASE) INCREASE IN CASH AND SHORT TERM INVESTMENTS	**(8,526)**	41,378
CASH AND SHORT TERM INVESTMENTS, AT BEGINNING OF PERIOD	**47,355**	5,977
CASH AND SHORT TERM INVESTMENTS, AT END OF PERIOD	**$ 38,829**	$ 47,355

See accompanying notes to financial statements.

THE MANITOBA TELEPHONE SYSTEM

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 1987

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

a. General

The Manitoba Telephone System is incorporated by virtue of the provisions of The Manitoba Telephone Act, as a Crown Corporation of The Province of Manitoba.

The Manitoba Telephone System follows accounting practices similar to those used by other Telecom Canada members.

b. Telecommunications property

Telecommunications property is recorded at original cost including materials, direct labour and overhead costs which vary with the level of construction. In addition, the System includes the cost of funds used to finance the construction, based on the duration of the projects.

c. Depreciation

Depreciation is calculated on a straight-line basis over the estimated useful life of telecommunications property by applying rates which are based on a continuing program of engineering studies.

When depreciable telephone property is retired, the original cost of such property, adjusted by any disposal proceeds and costs of removal, is charged to accumulated depreciation.

d. Translation of foreign currencies

Foreign currencies have been translated into Canadian funds at rates of exchange on the following basis:

i) long-term debt at rates prevailing at year end;
ii) accrued interest at rates prevailing at year end;
iii) debt charge at rates prevailing at the date of each transaction.

The unrealized gains and losses resulting from the policy of using rates prevailing at year-end is being amortized over the remaining term of the debt on a straight-line basis.

e. Deferred employee benefits

The deferred employee benefit liability represents a sick leave vesting (SLV) plan and pension provisions. The method of recording the pension plan expense is described in Note 10. The initial cost of the SLV plan, which became effective June 1, 1977, is being amortized on a straight-line basis over fifteen years. The annual sick leave entitlements subsequent to June 1, 1977 are being accrued and charged to expense in the year to which they relate. Payments to employees on termination are being charged to the deferred liability.

f. Amortization of bond discounts in sinking fund investments

Bond discounts arising from the purchase of bonds below face value are amortized over the remaining life of the bond.

g. Amortization of long term debt costs

Costs associated with the issuance of long term debt are being deferred and amortized over the term of the original issue.

2. CHANGE IN YEAR-END

In accordance with Order-In-Council 1197/87, dated October 14, 1987, the fiscal year-end of the Manitoba Telephone System was fixed at December 31 in each year. Because of this change, the related statements of operations and reinvested earnings and changes in financial position are for a nine-month period.

3. INVESTMENTS

	December 31 1987	March 31 1987
	(in Thousands of Dollars)	
Telesat Canada 99,000 common shares, at cost	**$999**	$999

THE MANITOBA TELEPHONE SYSTEM

4. DUE FROM SUBSIDIARY

Included in accounts receivable is a balance of $509,000, due from MTX Telecom Services, Inc. (MTX), a wholly owned subsidiary. This amount represents the net assets of MTX as of December 31, 1987.

5. ADJUSTMENT OF PRIOR YEARS SINKING FUND EARNINGS

Effective April 1, 1987, the Manitoba Telephone System adopted on a retroactive basis the policy of amortizing bond discounts arising from the purchase of bonds below face value. The financial statements have not been restated for comparative purposes for the year ended March 31, 1987. As a result of this change, Sinking Fund Investments have been written up by $2,695,000. This retroactive adjustment resulted in a cumulative increase in opening reinvested earnings of $2,400,000. Amortization for the nine-month period was $295,000.

6. MISCELLANEOUS OPERATING REVENUES

	9 Months Ended December 31, 1987	12 Months Ended March 31, 1987
	(in Thousands of Dollars)	
Miscellaneous operating revenue includes:		
Directory advertising	**$17,462**	$20,829
Rentals and attachments	**4,969**	6,091
Other	**1,498**	2,174
	$23,929	$29,094

7. OPERATING TAXES

This category represents grants to municipalities in lieu of property taxes, the Manitoba Telephone System's portion of Canada Pension Plan and Unemployment Insurance, the Health and Education Levy and general levies.

8. OTHER REVENUES

	9 Months Ended December 31, 1987	12 Months Ended March 31, 1987
	(in Thousands of Dollars)	
Other revenues include:		
Interest earned on investments	**$10,396**	$12,091
Surcharge on overdue accounts	**1,605**	1,983
Interest charged to construction	**1,051**	834
Miscellaneous, net	**1,081**	1,843
	$14,133	$16,751

9. DEBT CHARGES

	9 Months Ended December 31, 1987	12 Months Ended March 31, 1987
	(in Thousands of Dollars)	
Debt charges include:		
Interest on long-term debt	**$57,550**	$71,979
Amortization of unrealized foreign currency losses	**5,866**	2,902
Realized loss on foreign currency	**—**	14,350
Amortization of long-term debt costs	**652**	970
Other interest expense and debt charges	**747**	926
	$64,815	$91,127

10. PENSIONS

a. Pension expense

Employees of the Manitoba Telephone System are pensionable under the Civil Service Superannuation Fund (the Fund) and make contributions to the Fund at prescribed rates. The Manitoba Telephone System is required to pay 50% of the pension disbursements made to retired employees. These pension payments are charged to general, operations and administrative expenses in the year of the disbursements. For the nine-month period ended December 31, 1987, the Manitoba Telephone System charged $5,051,000 to expenses as a result of such disbursements.

10. PENSIONS (Continued)

In addition, during the period ended December 31, 1987 the Board of Commissioners has approved contributions of $13,098,000 to an investment fund for future pension obligations, of which $11,058,000 has been charged to pension expenses. Accordingly, the total charge to expense for pensions for the nine-month period ended December 31, 1987 is $16,109,000 (12 months ended March 31, 1987 - $22,290,000).

b. Investments held for pension obligations

Investments held for pension obligations are recorded at cost, unless there is a permanent impairment in the value of the investments. The total cost of the investments held at December 31, 1987 was $65,349,000 (market value - $61,229,000). The investments are administered by external investment managers.

c. Pension liability

Based on a formula contained in an actuarial report prepared as of December 31, 1986, the Manitoba Telephone System has a total liability for pension obligations as at December 31, 1987 of approximately $207,000,000. This liability is based on the assumption that future pensions will be increased due to increases in the cost of living.

d. Deferred employee benefits

Obligations for pensions and vested sick leave have been recorded on the balance sheet as follows:

	December 31, 1987	March 31, 1987
	(in Thousands of Dollars)	
Pensions	**$65,349**	$52,251
Vested sick leave	**15,342**	14,716
	$80,691	$66,967

THE MANITOBA TELEPHONE SYSTEM

11. LONG-TERM DEBT

	Outstanding at rates prevailing December 31, 1987	Outstanding at rates prevailing March 31, 1987
	(in Thousands of Dollars)	
Province of Manitoba advances		
Series 11M, 13¼%, due October 13, 1987	**$ —**	$ 65,000
Series 10V, 9¾%, due December 1, 1988	**25,000**	25,000
**Series BG, 9.375%, due August 2, 1990	**100,000**	—
Series 11E, 14¾%, due July 1, 1991 (40.0 million U.S. Dollars)	**51,992**	52,204
Series 11J, 15¼%, due March 31, 1992	**40,000**	40,000
Series AN, 11½%, due May 15, 1995	**50,000**	50,000
Series AFA1, 11%, due November 5, 1995	**55,000**	55,000
*Series AX, 7 4/5%, due May 20, 1996	**64,092**	60,521
Series UFA2, 9 13/25%, due September 26, 1996	**65,600**	65,600
Series BC, 3½%, due February 5, 1997	**87,500**	87,500
Series 10T, 9¾%, due May 15, 1998	**12,090**	12,090
Series 11A, 10¼%, due August 1, 1999	**5,000**	5,000
Series 9X, 10%, due December 5, 1999	**10,000**	10,000
	566,274	527,915
Bonds payable		
Debentures issued by the System fully guaranteed by the Province of Manitoba		
Series 1J, 7¾%, due February 15, 1989	**10**	10
Series 1M, 8%, due September 15, 1989	**108**	108
Series 1E, 5%, due January 15, 1991 (14.5 million U.S. Dollars)	**18,847**	18,924
Series 1N, 7⅞%, due November 15, 1991	**20,000**	20,000
Series 1F, 6¼%, due December 1, 1991	**20,000**	20,000
Series 1V, 5%, due January 3, 1992 (80.0 million Swiss Francs)	**81,816**	69,368
Series 1G, 7%, due February 15, 1993	**20,000**	20,000
Series 1P, 7⅞%, due March 15, 1993	**10,000**	10,000
Series 1T, 10%, due July 2, 1995	**10,000**	10,000
Series 1U, 10½%, due May 1, 1996	**20,000**	20,000
Series 1S, 8¾%, due March 1, 1999	**37,000**	37,000
	237,781	225,410
	$804,055	$753,325

* Converted to Canadian dollars September 1987.
** After 1990, extendable at the option of the bond holder.

11. LONG-TERM DEBT (Continued)

Under the requirements of The Manitoba Telephone Act, the Manitoba Telephone System is required to pay to the Minister of Finance of the Province of Manitoba, as trustee for the sinking fund, an amount which is not less than 1% of the long-term debt outstanding at the end of the preceding fiscal year and 4% of the sinking fund balance at the end of the preceding fiscal year. The Sinking fund contribution for the period ending December 31, 1987 was calculated as three quarters of the amount established under this formula. The market value of the investments held in the fund at December 31, 1987 is $56,457,453 (March 31, 1987 - $56,343,125).

Based on existing long-term debt and current exchange rates prevailing at December 31, 1987, the following payments will be required to meet sinking fund conditions and debt retirements:

Year ending December 31	Sinking Fund Payment	Debt Retirement
	(in Thousands of Dollars)	
1988	$ 9,870	$ 25,000
1989	9,899	118
1990	10,292	100,000
1991	9,579	110,839
1992	7,869	121,816

It is the intention of the Manitoba Telephone System to refinance its maturing long-term debt, and accordingly all such debt is presented as a long-term obligation.

12. LEASE COMMITMENTS

The Manitoba Telephone System rents buildings, construction and other equipment, under operating leases. The aggregate annual rental of the commitments under the leases, which expire at varying dates to December 31, 1992, are:

1988	$2,480,607
1989	758,837
1990	442,531
1991	206,144
1992	64,958

13. COMPARATIVE STATEMENTS

March 1987 figures have been reclassified where necessary to conform to the December 31, 1987 presentation.

The March 31, 1987 financial statements were reported on by another firm of Chartered Accountants.

THE MANITOBA TELEPHONE SYSTEM

FIVE YEARS IN REVIEW

STATEMENT OF OPERATIONS (Thousands of Dollars)	9 Months Ended December 31, 1987	12 Months Ended March 31 1987	1986	1985	1984
Total operating revenues	**$ 310,328**	$ 379,319	$ 349,382	$ 326,330	$ 294,248
Total operating expenses	**257,699**	324,934	282,916	265,443	243,496
Other revenues	**14,133**	16,751	17,231	15,283	15,509
Debt charges	**64,815**	91,127	84,735	60,978	64,134
Extraordinary item	**—**	—	27,110	—	—
Net revenues (loss)	**1,947**	(19,991)	(28,148)	15,192	2,127
BALANCE SHEET (Thousands of Dollars)					
Telephone Plant	**$1,468,737**	$1,379,826	$1,257,934	$1,132,271	$1,037,519
Accumulated depreciation	**692,406**	642,123	571,517	501,892	429,271
Investments and sinking funds	**123,492**	104,263	123,737	103,817	83,015
Government advances	**566,274**	527,915	462,992	346,410	370,403
Bonds payable	**237,781**	225,410	227,159	211,505	227,459
Construction expenditures	**132,776**	166,060	153,154	112,721	91,400
Reinvested earnings	**71,910**	67,563	87,554	115,702	100,510
TELEPHONE STATISTICS					
Plant investment per main telephone	**$ 2,804**	$ 2,690	$ 2,504	$ 2,320	$ 2,200
Main Sets in Service					
Business	**108,351**	103,080	101,085	94,627	88,385
Residence	**415,506**	409,904	401,201	392,813	383,507
Total	**523,857**	512,984	502,286	487,440	471,892
Percent dial	**100.0**	100.0	100.0	100.0	100.0
Main Telephones added during the period	**16,424**	10,698	14,846	15,549	14,744
(a) Average daily local calls (in thousands)	**5,482**	5,342	4,910	4,562	4,224
(b) Average daily long distance calls (in thousands)	**266**	251	235	215	201
OTHER STATISTICS					
Salaries and wages (in thousands)	**$ 115,585**	$ 146,978	$ 139,822	$ 129,012	$ 122,049
Number of employees	**5,064**	5,046	4,899	4,660	4,537
Employee per thousand main telephones	**9.6**	9.8	9.8	9.6	9.6
Long-term debt percentage of total invested capital	**91.0**	91.0	87.5	82.0	84.2
Debt charge coverage ratio	**1.0**	.8	.9	1.3	1.0
Effective average debt rate	**8.3**	12.5	13.2	10.2	10.6

ISSN 0381-4864 ISSN 0381 - 4864